Bureau of Economic Analysis

FY 2005 Budget Initiatives
(Dollars in thousands)

Program Extensions

Summary: ($10,656) To complete final stage of multi-year project to generate more timely economic data, meet U.S. international obligations, and acquire and incorporate real-time data into BEA's economic accounts. These projects will improve the timeliness, relevance, and accuracy of economic measures used by policy makers, business leaders, and the American public to inform a wide variety of decisions.

Background: BEA has undertaken an aggressive program to improve the quality and accuracy of its major economic accounts. Since FY 2001, BEA has committed to improving its economic statistics by (1) improving methodologies, finding better source data, and filling information gaps; (2) accelerating the release of eight of its major economic measures; and (3) ensuring international comparability by meeting commitments made to world organizations. To date, BEA has made significant progress. To complete the work already begun to make BEA estimates more useful to its users, these funds are being requested in FY 2005.

Proposal: *(1) Generating More Timely Data.* (Amount: $5,167) BEA was challenged by the Secretary of Commerce to accelerate the release of eight of its most important economic statistics. During FY 2003, BEA successfully accelerated the release of the GDP-by-industry estimates and concluded a one-week acceleration of the international trade in goods and services as well as completed initial work to accelerate the annual input-output accounts in 2004. BEA seeks funding in FY 2005 to complete the acceleration of the remaining five measures including GDP, U.S. personal income, gross state product, metropolitan personal income, and county personal income. It also will allow BEA, in cooperation with the Census Bureau, to accelerate the release of the monthly U.S. international trade statistics by the full 20 days compared to the seven-day acceleration already achieved. These accelerations are important to business and government leaders as they will provide a much quicker picture of the U.S. economy without sacrificing quality. See chart below for more details on the acceleration plan.

Proposed Acceleration of Key BEA Estimates for FY 2005				
Economic Measure	**Major Uses**	**Now Available**	**Will be Available**	**Acceleration**
Metropolitan Personal Income	Used for business location planning, transportation planning and environmental policy.	17 months after end of reference year	9 months after end of reference year	8 months
Gross State Product	State equivalent of the GDP used for allocation of funds, productivity analyses, and economic development planning.	18 months after end of reference year	5 months after end of reference year	13 months
County Personal Income Estimates	Used by state and local officials for economic development, budget forecasts, and benchmark work.	17 months after end of reference year	10 months after end of reference year	7 months
International Trade in Goods and Services[1]	Trade negotiations and policy, international competitiveness, early signal of GDP change.	42-44 day after end of reference month	30 days after end of reference month	2 weeks
GDP Estimates	Broadest measure of the U.S. economy used for decisions on monetary, fiscal and public policies; business strategic planning; investment and financial commitments.	25-30 days after end of reference quarter	2 weeks after end of reference quarter	2 weeks
Personal Income and Outlays Estimates	Provides measure of household spending and economic well-being.	26-33 days after end of reference month	2 weeks after end of reference month	2 weeks

[1]Contingent on Census Bureau work to accelerate merchandise trade data.

(2) Meeting U.S. International Obligations. (Amount: $2,287) This budget request for BEA includes funds to complete work on the multi-year initiative to meet U.S. international obligations to provide new data on the U.S. economy. FY 2003 funding allowed BEA to help develop two new international economic data classification systems – the NAICS and the North American Product Classification System (NAPCS) – that are being incorporated into the statistics of the United States, Canada, and Mexico. The FY 2005 funds will allow BEA to complete the incorporation of NAICS and begin bringing NAPCS into its accounts. These funds also will allow BEA to meet its international obligations in other areas. It will not only encourage other countries to meet their obligations, but will improve the usefulness of BEA data to domestic policy makers and business and financial analysts that need ever more timely and accurate data to understand U.S. international trade and financial transactions.

U.S. commitments also include participation in the "Special Data Dissemination Standards" (SDDS) which were developed under an international agreement to increase the transparency of data on economic conditions, particularly of countries that wish to borrow internationally. To assure data accuracy, BEA must produce a full international investment position quarterly instead of annually, as is the current practice. BEA also must update and expand the scope of the accounts to include derivatives financial instruments, in cooperation with the Federal Reserve Board. By taking a leadership role in producing such international balance-of-payments statistics that are up-to-date and transparent, the United States can stimulate similar efforts by other countries, thereby improving the ability of the IMF, U.S. authorities, officials in other countries, and investors to monitor international borrowing and more quickly respond to potential international debt crises.

In addition, BEA is proposing to produce an expanded and regular supplemental balance of payment accounts. These accounts provide an alternative basis to monitor international economic environments, with particular emphasis on multinational firms. The supplemental framework redefines U.S. trade to include income from businesses that are located abroad but owned by U.S. persons, and to exclude income payments by businesses that are located in the United States but owned by foreign persons.

Meeting International Obligations: Milestones and Schedules			
	FY 2005	**FY 2006**	**FY 2007**
IMF Special Data Dissemination Standards (SDDS): ***New U.S. Data***			
Required BEA development of new U.S. international debt position (quarterly) statistics, by type:			
Direct investment	X	X	X
General government and monetary authorities: loans	X	X	X
General government and monetary authorities: other liabilities	X	X	X
General government: trade credits	X	X	X
Monetary authorities: currency and deposits	X	X	X
BEA participation in the preparation of additional statistics required for new U.S. debt accounts, by type:			
Debt service schedules (for all above components except direct investment)	X	X	X
Bank liabilities	X	X	X
Liabilities on securities other than equities (i.e., bonds, notes, money market instruments)	X	X	X
Liabilities on trade credits, currency and deposits of banks, loans, and all other instruments	X	X	X
Liabilities broken out by individual foreign currency	X	X	X
New supplementary data necessary for reconciliation of SDDS data with BEA economic accounts:			
Financial asset positions	X	X	X
U.S. positions and transactions in financial derivatives	X	X	X
Next round of additions to BEA international financial statistics pursuant to SDDS goals:		X	X

(3) Acquire Real-Time Data to Improve Quality: (Amount: $3,202) At present, BEA uses as raw material data from the Census Bureau's annual, quarterly and monthly surveys as well as the quinquennial Economic Census for estimating GDP and related measures. Because those surveys leave large gaps in coverage of a number of the nation's largest and most volatile industries, BEA must supplement Census and other data by estimating economic activity for certain industry sectors. These baseline extrapolations often do not capture important economic shifts, resulting in statistics that can miss significant changes in the U.S. economy.

In order to further improve the quality of its statistics, BEA would acquire monthly data from private sources to fill data gaps. Data from checkout scanners in retail and wholesale businesses and other real-time data are now available for a number of important market segments such as supermarkets, pharmaceuticals, new and used cars, and computers and software. While these data will not replace Census Bureau survey data, they will supplement them where they are deficient by providing more timely and frequent information to estimate the GDP than is currently available.

Data Purchases for National Accounts		
Type of data	**Estimates improved**	**Value in 2002**
Monthly scanner (point-of-sale) data for grocery stores, drug stores, and mass merchandisers.	Personal consumption expenditures for durable and nondurable goods (except motor vehicles).	$2,579.2 billion (24.6 percent of GDP)
Business-to-business resellers of software.	Private investment in software.	$167.9 billion (1.6 percent of GDP)
New and used purchases of motor vehicles.	Personal consumption expenditures and private investment in motor vehicles.	$513.7 billion (4.9 percent of GDP)
Annual update of undercount of income because of nonfiling of tax returns.	Proprietors' income	$797.7 billion (7.5 percent of gross domestic income)

BEA proposes to conduct quarterly surveys of international financial transactions in selected services markets. At present, over $76 billion in international economic activity is collected only annually but used to estimate monthly and quarterly figures. Those surveys cover some of the largest and important volatile service sector industries such as insurance, financial services, royalties and license fees, construction, telecommunications, and other important categories. By conducting a quarterly survey of these services instead of annual ones, BEA will be able to account for about $50 billion of this $76 billion much more quickly. As a result, international balance of payments statistics will more accurately and quickly reflect changes in activity patterns. These data also would reduce the revisions of the GDP as they are an integral part of the national accounts. Finally, this initiative complements the work at the Census Bureau to conduct a quarterly indicator of domestic service sector transactions by providing the international component required to build a comprehensive picture of services economic activity in the U.S. economy.

Program Extension	
	Amount
Generating More Timely Data	$5,167
Meeting U.S. International Obligations	$2,287
Acquire Real-time Data to Improve Quality	$3,202
Total	$10,656

Business Investment and Employment

Summary: ($1,507) To produce current annual estimates on business investment spending by industry for equipment and other goods which will tell where high-tech and other investments are going and how they affect productivity in specific industries. The initiative also provides employment and compensation data by industry that is more user-friendly in providing information on the impacts of economic change on job losses and gains and average earnings by industry.

Background: "Who buys what from whom?" Wall Street, industry analysts, business leaders, and academia are increasingly interested in which industries are buying what technology from which other industries. The data on business investment, also known as capital flows, are designed to provide information on the flow of investment dollars to purchase and lease high-tech and other equipment. Currently, these estimates are produced every five years following the release of data from the Census Bureau's Economic Census. As a result, the business investment data are at least five years old, thus limiting their usefulness.

Proposal: BEA proposes to produce annual estimates of business investment and employment and employee compensation by industry to accompany the annual input-output accounts. These tables will provide policy makers and industry analysts with the information needed to address questions about the sources of the recent spurt in economic and productivity growth, the contributions of information technology to this growth, and the effects of changes in the economy on employment and compensation. The accounts will show changes in industry investment in high-tech equipment such as computers, software, and other IT equipment; major shifts in employment in key industries; and the direct and indirect impacts of these changes on the rest of the economy.

- The **Annual Business Investment (or capital flow) Accounts** will be a three-year program to develop annual updates to the benchmark capital flow tables that are produced every five years to accompany the Benchmark Input-Output Accounts.

Sample Table and Example

Capitol Flow: Selected Equipment Spending by Selected Industries, 1992

(Percent)

Capital Equipment Category	Oil and gas extraction	Communications services	Financial services
Computers and peripheral equipment	0.6	5.3	15.3
Communication equipment	0.1	55.5	4.5

An example of the problems associated with these old data is illustrated by the extract from the existing capital flow table, which presents data on purchases of computers by key industries. The 1992 data represent the share of computer purchases by the petroleum industry in what was a very bad year for that industry, and shares for communications and financial services that predated the dramatic changes and rapid growth that occurred in the latter half of the 1990s in those industries. Without more up-to-date information, policymakers and analysts are simply guessing at the industry-by-industry impact of economic and technical change on productivity, inflation, and future economic growth.

- The **Industry Employment and Compensation Estimates** is a two-year program to produce annual estimates of employment by industry. Currently, only compensation is provided in the benchmark Input-Output Accounts that are produced every 5 years. Although somewhat dated at present, analysts often use compensation data to provide a better understanding of the impacts of economic change on households; they are eager to have current employment figures to better understand and explain change.